



# Rushtons

Chartered Accountants + Business Advisers

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## WELCOME

Welcome to the May 2025 edition of Tax E-News. We hope that you find this informative. Please contact us if you wish to discuss any matters in more detail.



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## RUSHTONS NEWSLETTER

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# MTD FOR INCOME TAX - FAQs

Making Tax Digital for Income Tax (MTD for IT) will be introduced from 6 April 2026. Below are some frequently asked questions and answers.

## Who will be affected by MTD for IT, and when?

Individuals with self employment and/or income from property will need to comply with MTD for IT once they are mandated. The commencement date for MTD for IT is 6 April 2026, but a phasing-in program will mean that some individuals are not immediately within the regime. MTD for IT applies from:

- 6 April 2026 for sole traders and landlords with qualifying income over £50,000 in 2024/25.
- 6 April 2027 for those with qualifying income over £30,000 in 2025/26.
- 6 April 2028 for those with qualifying income over £20,000 in 2026/27.

If an individual's qualifying income exceeds the threshold in a tax year, HMRC will notify them that they are mandated to comply with the MTD for IT rules.



## What is 'qualifying income'?

Qualifying income is a person's gross income (turnover), before expenses are deducted, from self-employment and property combined.

## Does qualifying income include VAT?

HMRC will look at the tax return 'income' boxes to calculate qualifying income. For those using the Cash Basis, it is possible to include VAT in the tax return figures for income and expenses. If VAT is included, HMRC will include it in the individual's qualifying income, therefore it's best not to use VAT-inclusive figures in the tax return.

## Are there any exemptions for those with a low volume of transactions?

No. If qualifying income is over the thresholds outlined above, an individual will be mandated regardless of the volume of transactions.

## What do I need to do if I am mandated?

You will keep digital records in MTD-compatible software and send a quarterly update summary of your business income and expenses to HMRC. This means that each quarter, you will need to enter details of each item of income and expenditure into your software.

In addition to the quarterly record-keeping and reporting requirements, you will still need to submit an end-of-year tax return, where you enter any other sources of income (such as employment, savings or dividends) and finalise your tax position. The end-of-year return also needs to be submitted using MTD-compatible software.

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### **Will I need to make quarterly payments to HMRC?**

At this point, there are no plans to mandate quarterly payments. The due date for payment will remain 31 January following the end of a tax year, with payments on account due on 31 January and 31 July.

### **I've heard that there's an easement for those with turnover below £90,000. What does this involve?**

There is an easement, but it's not as generous as we would like! The easement allows businesses with turnover below the VAT threshold to send totals for 'income' and 'expenditure' to HMRC each quarter, instead of totals for a longer and more detailed list of income and expense categories. Each individual item of income and expenditure will still need to be entered into the MTD-compatible software, although each item can be simply categorised as either 'income' or 'expenditure'.

### **Apparently there's an easement for recording income from jointly held property. What does this mean?**

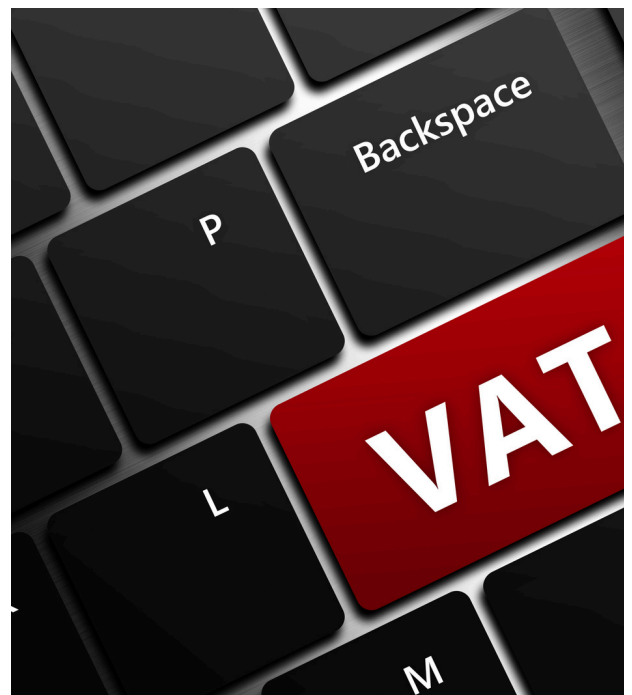
There is a separate easement for recording and reporting jointly held property income, that can be used in conjunction with the easement for those with turnover below £90,000 (provided income for the property business is below the threshold). If both easements are used, for jointly held property, the individual can enter a single income figure into the MTD-compatible software each quarter and a single, annual total expenses figure in quarter 4.

Where an individual receives property income and incurs residential property finance costs (such as mortgage interest), they must create a separate digital record for these costs and send them separately from other expenses, even if taking advantage of this easement.

### **I already submit quarterly VAT returns. How will this work alongside MTD for IT quarterly updates?**

MTD for IT quarterly updates are for set periods. The quarters end on 5<sup>th</sup> July, 5<sup>th</sup> October, 5<sup>th</sup> January and 5<sup>th</sup> April, although it is possible to elect to use 'calendar quarters' ending on 30<sup>th</sup> June, 30<sup>th</sup> September, 31<sup>st</sup> December and 31<sup>st</sup> March.

VAT quarters can end on the last day of any month, depending on your 'VAT stagger'. If your VAT quarters do not align with the calendar quarters for MTD for IT, it may be worth considering changing your VAT stagger, so that your VAT returns are aligned with your MTD for IT quarterly updates.





## ***Continued...***

### **What will happen if I don't comply with the new rules?**

Once you are mandated to comply with MTD for IT, a range of penalties will apply to both the quarterly updates and the end-of-year returns. A new penalty regime for late filing and late payment will apply to those who are mandated. Penalties for errors will apply to the end-of-year tax return, but not the quarterly updates. This does not mean that erroneous 'nil' returns can be submitted for the quarterly updates, however. HMRC will have powers to issue penalties of up to £3,000 per quarter if you do not keep digital records. At this time, it is unclear how HMRC will use these powers because guidance has not yet been issued.

## **CHANGES TO THE TAXATION OF NON-UK DOMICILED INDIVIDUALS**

From 6 April 2025, a new regime for the taxation of UK resident non-domiciled individuals came into effect. HMRC have published a brand-new manual on the regime which can be viewed at: <https://www.gov.uk/hmrc-internal-manuals/residence-and-fig-regime-manual>

Until 5 April 2025, special tax rules applied to individuals who were resident in the UK but whose domicile (i.e. their permanent home, usually determined by their father's permanent home at the time the individual was born) was outside the UK. Such individuals could choose to either pay UK tax on their foreign income and gains as they arose or, alternatively, they could claim the remittance basis, which meant only foreign income and gains remitted to the UK were taxed.

From 6 April 2025, all UK residents will be taxed on the arising basis of assessment. The remittance basis will no longer be an option. A new regime for Foreign Income & Gains (FIG) will be available to individuals for their first four years of UK tax residence after a period of 10 years non-residence. Individuals who make a claim to use the new 4-year FIG regime will not pay tax on FIG arising in those four years. Former remittance basis users will continue to pay tax on FIG that arose before 6 April 2025 that they remit to the UK.

New rules also apply for Inheritance Tax (IHT) purposes. The new test for whether non-UK assets are in scope for IHT is whether an individual has been resident in the UK for at least 10 out of the last 20 tax years immediately preceding the tax year in which the chargeable event (including death) arises. This is known as being a 'long-term UK resident'. Where an individual is a long-term UK resident and becomes non-UK resident, they will remain in scope for IHT for a minimum of 3 years and a maximum of 10 years depending on the amount of time they resided in the UK.



# HOLIDAY LETTINGS AND PROPERTY

The Furnished Holiday Lettings (FHLs) regime was abolished on 6 April 2025. What does the abolition mean for your holiday letting property?

The property will become part of either your main UK or overseas property business. This means that some of the beneficial tax rules that previously applied will no longer apply, such as:

- Tax relief for dwelling-related loan interest will be restricted to basic rate (20%).
- New capital expenditure will generally not qualify for capital allowances. Instead, the replacement of domestic items relief may apply.
- Capital Gains Tax reliefs for trading business assets (such as Business Asset Disposal Relief, Gift Relief and Rollover Relief) will no longer be available.
- Income from the property will no longer be included in 'relevant UK earnings' for the purposes of calculating maximum pension relief.

However, all is not lost! There are some transitional measures that you may benefit from:

- It will be possible to carry forward losses that were generated by an FHL business prior to 6 April 2025. These losses will be available for set off against future years' profits of either the UK or overseas property business, as appropriate.
- Where an FHL business had a capital allowances pool at 5 April 2025, the pool can be carried forward within the general property business. Going forwards, it will be possible to claim writing-down allowances on the pool.
- For Business Asset Disposal Relief (BADR), where the FHL conditions were satisfied in relation to a business that ceased prior to 6 April 2025, relief may continue to apply to a disposal that occurs within the normal 3-year period following cessation.

If your property previously qualified as an FHL and you have questions about the new tax treatment, please get in touch with us!

## VAT: 'FOOD' OR 'CONFECTIONERY'?

Group 1 of Schedule 8 VAT Act 1994 specifically makes 'food' zero-rated, although there is a long list of 'excepted items' which do not qualify for the zero-rating and are therefore standard-rated. Excepted item No. 2 is "Confectionery, not including cakes or biscuits other than biscuits wholly or partly covered with chocolate or some product similar in taste and appearance".

Note 5 expands on the meaning of 'confectionery', saying that it "includes chocolates, sweets and biscuits; drained, glaze or crystallised fruits; and any item of sweetened prepared food which is normally eaten with the fingers".

Over the years, there have been numerous court and tribunal cases that have considered whether or not a food item meets the definition of 'confectionery'. The most recent case has concerned 'Mega Marshmallows'; the kind usually toasted on a skewer over outdoor fires and barbecues.

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In *HMRC v Innovative Bites Ltd* ([2025] EWCA Civ 293), the Court of Appeal (CoA) has allowed HMRC's appeal and has remitted the case to the First Tier Tribunal (FTT) to consider whether mega marshmallows are a "sweetened prepared food which is normally eaten with the fingers". The CoA found that both the First-Tier and Upper Tribunals had not put sufficient emphasis on the manner in which Mega Marshmallows are 'normally eaten'.

It will be interesting to read the First-Tier Tribunal's ruling, as toasted marshmallows are normally eaten from a skewer, albeit one that is held with fingers!

## DIARY OF MAIN TAX EVENTS

**MAY/ JUNE 2025**

Date	What's Due
1 May	Corporation Tax for year to 31/07/2024, unless quarterly instalments apply.
19 May	PAYE & NIC deductions, and CIS return and tax, for month to 05/05/2025 (due 22/05 if you pay electronically).
31 May	Give each employee a P60 for 2024/25.
1 June	Corporation Tax for year to 31/08/2024, unless quarterly instalments apply.
19 June	PAYE & NIC deductions, and CIS return and tax, for month to 05/06/2025 (due 22/06 if you pay electronically).



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